

ATLANTIC COMMUNITY SCHOOL DISTRICT  
INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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Atlantic Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education (Before September 2006 election)</b>		
Glen Smith	President	2006
Phil Hascall	Vice President	2008
Jody Lorence	Board Member	2006
Jon Martens	Board Member	2008
Dennis Davis	Board Member	2007
<b>Board of Education (After September 2006 election)</b>		
Phil Hascall	President	2008
Jody Lorence	Vice President	2009
Dennis Davis	Board Member	2007
Jon Martens	Board Member	2008
Glen Smith	Board Member	2009
<b>School Officials</b>		
Dr. Wendy Prigge	Superintendent	2007
Lori Robertson	District Secretary and Business Manager	2007
Amy Groom	District Treasurer	2007
Dave Chase	Attorney	2007
Brian Gruhn	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
Atlantic Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Atlantic Community School District, Atlantic, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the Atlantic Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

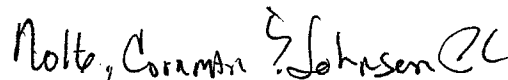
In accordance with Government Auditing Standards, we have also issued our report dated February 20, 2008 on our consideration of the Atlantic Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 35 through 36 are not required

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parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Atlantic Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2006 (which are not presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 6, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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Atlantic Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$11,568,880 in fiscal year 2006 to \$12,309,447 in fiscal year 2007, while General Fund expenditures increased from \$11,625,776 in fiscal 2006 to \$12,544,932 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$2,942,139 in fiscal 2006 to \$2,705,579 in fiscal 2007, an 8% decrease from prior year.
- The increase in General fund revenues was attributed to an increase in state funding. The increase in expenditures was attributed to more expenses in the instruction and support service areas. This was due to an increase in negotiated salaries and benefits, the addition of staff and increased utility costs.
- Overall, the District net assets in the governmental activities and the business type activities increased \$863,829 and \$83,355, respectively.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Atlantic Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Atlantic Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Atlantic Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Atlantic Community School District Annual Financial Report***

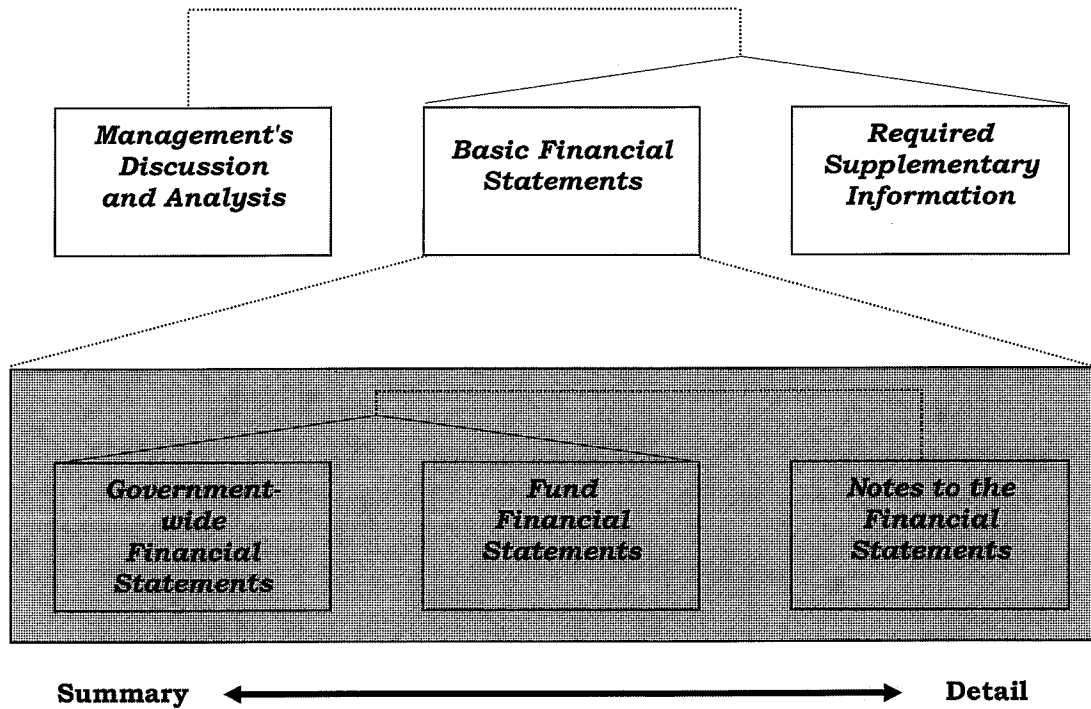


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

**Figure A-2**

***Major Features of the Government-Wide and Fund Financial Statements***

	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business type activities, but provide more detail and additional information, such as cash flows. The District currently has one Enterprise Fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

- 3) *Fiduciary funds:* The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency funds.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund
- Agency Fund – These are funds for which the District administers and accounts for parent prom, SWIA honor band, Ag Ed Advisory and Medicaid.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 11,457,624	9,809,896	212,895	134,412	11,670,519	9,944,308	17.36%
Capital assets	11,598,492	11,747,805	68,372	63,350	11,666,864	11,811,155	-1.22%
Total assets	23,056,116	21,557,701	281,267	197,762	23,337,383	21,755,463	7.27%
Long-term obligations	3,616,517	4,126,530	0	0	3,616,517	4,126,530	-12.36%
Other liabilities	5,420,128	4,275,529	5,683	5,533	5,425,811	4,281,062	26.74%
Total liabilities	9,036,645	8,402,059	5,683	5,533	9,042,328	8,407,592	7.55%
Net assets:							
Invested in capital assets, net of related debt	8,058,492	7,696,955	68,372	63,350	8,126,864	7,760,305	4.72%
Restricted	2,833,112	1,918,384	0	0	2,833,112	1,918,384	47.68%
Unrestricted	3,127,867	3,540,303	207,212	128,879	3,335,079	3,669,182	-9.11%
Total net assets	\$ 14,019,471	13,155,642	275,584	192,229	14,295,055	13,347,871	7.10%

The District's combined net assets increased by 7.10%, or \$947,184, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$914,728, or 47.68% over the prior year. The increase was primarily a result of the District increase in Capital Projects fund balance.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other

legal requirements – decreased \$334,103, or 9.11%. This increase in unrestricted net assets was primarily a result of the increase in the Nutrition fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to June 30, 2006.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business type Activities		Total District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 1,316,926	1,575,857	383,078	370,308	1,700,004	1,946,165	-12.65%
Operating grants and contributions and restricted interest	1,459,538	1,270,555	314,693	296,379	1,774,231	1,566,934	13.23%
Capital grants and contributions and restricted interest	0	39,313	0	0	0	39,313	-100.00%
General revenues:							
Property tax	4,864,599	4,725,629	0	0	4,864,599	4,725,629	2.94%
Local option sales and services tax	855,210	796,920	0	0	855,210	796,920	7.31%
Unrestricted state grants	5,950,335	5,509,369	0	0	5,950,335	5,509,369	8.00%
Other	342,228	188,172	5,661	2,621	347,889	190,793	82.34%
Total revenues	14,788,836	14,105,815	703,432	669,308	15,492,268	14,775,123	4.85%
Program expenses:							
Governmental activities:							
Instruction	8,872,959	8,233,440	0	0	8,872,959	8,233,440	7.77%
Support services	3,900,055	3,677,284	4,873	0	3,904,928	3,677,284	6.19%
Non-instructional programs	10,133	8,681	637,217	642,662	647,350	651,343	-0.61%
Other expenditures	1,141,860	1,163,764	0	0	1,141,860	1,163,764	-1.88%
Total expenses	13,925,007	13,083,169	642,090	642,662	14,567,097	13,725,831	6.13%
Net income before capital contributions	863,829	1,022,646	61,342	26,646	925,171	1,049,292	-11.83%
Capital contributions	0	0	22,013	18,286	22,013	18,286	20.38%
Changes in net assets	863,829	1,022,646	83,355	44,932	947,184	1,067,578	-11.28%
Beginning Net Assets	13,155,642	12,132,996	192,229	147,297	13,347,871	12,280,293	8.69%
Ending Net Assets	\$ 14,019,471	13,155,642	275,584	192,229	14,295,055	13,347,871	7.10%

In fiscal 2007, property tax, local option sales and service tax and unrestricted state grants accounted for 78.9% of the revenue from governmental activities while charges for services and operating grants and contributions account for nearly 100% of the revenue from business type activities.

The District's total revenues were approximately \$15.5 million of which \$14.8 million was for governmental activities and \$.7 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced an increase of 4.85% in revenues and a 6.13% increase in expenses. The increase in expenses was related to the increase in negotiated salaries and benefits during the year.

## Governmental Activities

Revenues for governmental activities were \$14,788,836 and expenses were \$13,925,007.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 8,872,959	8,233,440	7.21%	6,586,273	5,808,282	11.81%
Support services	3,900,055	3,677,284	5.71%	3,866,946	3,666,219	5.19%
Non-instructional programs	10,133	8,681	14.33%	10,133	8,681	14.33%
Other expenses	1,141,860	1,163,764	-1.92%	685,191	714,262	-4.24%
Totals	<u>\$ 13,925,007</u>	<u>13,083,169</u>	<u>6.05%</u>	<u>11,148,543</u>	<u>10,197,444</u>	<u>8.53%</u>

- The cost financed by users of the District's programs was \$1,316,926.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,459,538.
- The net cost of governmental activities was financed with \$4,864,599 in local property tax, \$855,210 in local option sales and service tax, \$5,950,335 in unrestricted state grants, \$233,910 in interest income and \$108,318 in other general revenues.

## Business type Activities

Revenues of the District's business type activities were \$703,432 and expenses were \$642,090. The District's business type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Atlantic Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,341,276, above last year's ending fund balances of \$4,904,724. However, the primary reason for the increase in combined fund balances in fiscal 2007 is due to increased local option sales and services tax revenues in the Capital Projects Fund and income surtax revenues in the General Fund.

## Governmental Fund Highlights

- The District's decrease in General Fund financial position from \$2,942,139 in fiscal 2006 to \$2,705,579 in fiscal 2007 is a product of many factors. Revenues increased due to the increase in state grants and income surtax. The District's increase in General Fund expenditures was primarily due the increase in negotiated salaries and benefits, additional staff and increased energy costs.

- The Capital Projects Fund balance increased from \$1,181,651 in fiscal 2006 to \$1,931,206 in fiscal 2007 due to the increase in local option sales and services tax received to be used for capital improvements.

### Proprietary Fund Highlights

The Proprietary Fund net assets increased from \$192,229 at June 30, 2006 to \$275,584 at June 30, 2007, representing an increase of 43.4%. The District had an increase in expenditures and a greater increase in revenues resulting in an increase of net assets.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$623,869 more than budgeted revenues, a variance of 4.21%. The most significant variance resulted from the District receiving more in local sources than originally anticipated, more specifically local option sales and service tax.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$11.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of nearly one percent from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$552,772.

The original cost of the District's capital assets was \$19.3 million. Governmental funds account for \$19.1 million with the remainder of \$0.2 million in the Proprietary, School Nutrition Fund.

The largest percentage change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$76,883 at June 30, 2007. This significant increase resulted from construction started but not completed during the fiscal year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 928,419	928,419	0	0	928,419	928,419	0.00%
Construction in progress	76,883	0	0	0	76,883	0	100.00%
Buildings	9,491,884	9,717,941	0	0	9,491,884	9,717,941	-2.33%
Land improvements	697,793	732,675	0	0	697,793	732,675	-4.76%
Machinery and equipment	403,513	368,770	68,372	63,350	471,885	432,120	9.20%
Total	\$ 11,598,492	11,747,805	68,372	63,350	11,666,864	11,811,155	-1.22%

## Long-Term Debt

At June 30, 2007, the District had \$3,616,517 in early retirement benefits and general obligation long-term debt outstanding. This represents a decrease of 12.36% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$3,540,000 at June 30, 2007.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy of \$76,517 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total		Total
	School District		Change
	June 30,		June 30,
	2007	2006	2006-07
General obligation bonds	\$ 3,540,000	4,105,000	-13.76%
Early retirement	76,517	21,530	255.40%
Totals	<u>\$ 3,616,517</u>	<u>4,126,530</u>	<u>-12.36%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- The District will negotiate a new agreement during fiscal 2007 with the Atlantic Education Association (AEA) and the Atlantic School District Employees' Association. Settlements in excess of "new money" or allowable growth in state funding will have an adverse effect on the District's General Fund budget and related fund balance.
- The District has experienced declining enrollment for a few years and expects the trend to continue.
- There has been discussion and planning of a new ethanol plant in the area.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lori Robertson, Business Manager/Board Secretary, Atlantic Community School District, 1100 Linn Street, Atlantic, Iowa, 50022.

## BASIC FINANCIAL STATEMENTS

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business Type Activities	Total
<b>Assets</b>			
Cash and pooled investments:	\$ 5,559,096	202,988	5,762,084
Receivables:			
Property tax:			
Delinquent	84,854	0	84,854
Succeeding year	4,352,788	0	4,352,788
Income surtax	722,073	0	722,073
Accounts	9,206	166	9,372
Due from other governments	729,607	0	729,607
Inventories	0	9,741	9,741
Capital assets, net of accumulated depreciation(Note 4)	11,598,492	68,372	11,666,864
<b>Total Assets</b>	<b>23,056,116</b>	<b>281,267</b>	<b>23,337,383</b>
<b>Liabilities</b>			
Accounts payable	231,651	60	231,711
Salaries and benefits payable	809,836	0	809,836
Accrued interest payable	25,853	0	25,853
Deferred revenue:			
Succeeding year property tax	4,352,788	0	4,352,788
Unearned revenues	0	5,623	5,623
Long-term liabilities(Note 5):			
Portion due within one year:			
Bonds payable	595,000	0	595,000
Early retirement	76,517	0	76,517
Portion due after one year:			
Bonds payable	2,945,000	0	2,945,000
<b>Total Liabilities</b>	<b>9,036,645</b>	<b>5,683</b>	<b>9,042,328</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	8,058,492	68,372	8,126,864
Restricted for:			
Talented and gifted	40,815	0	40,815
At risk	24,795	0	24,795
Beginning teacher mentoring	830	0	830
Salary improvement program	127	0	127
Additional teacher contract day	4,295	0	4,295
Market factor	7,255	0	7,255
Early intervention	3,262	0	3,262
Capital projects	1,931,206	0	1,931,206
Debt service	149,702	0	149,702
Physical plant and equipment levy	467,983	0	467,983
Management levy	92,160	0	92,160
Other special revenue purposes	110,682	0	110,682
Unrestricted	3,127,867	207,212	3,335,079
<b>Total Net Assets</b>	<b>\$ 14,019,471</b>	<b>275,584</b>	<b>14,295,055</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 5,804,369	617,645	922,032	(4,264,692)	0	(4,264,692)
Special instruction	2,164,432	396,188	80,837	(1,687,407)	0	(1,687,407)
Other instruction	904,158	269,984	0	(634,174)	0	(634,174)
	<u>8,872,959</u>	<u>1,283,817</u>	<u>1,002,869</u>	<u>(6,586,273)</u>	<u>0</u>	<u>(6,586,273)</u>
Support services:						
Student services	375,303	0	0	(375,303)	0	(375,303)
Instructional staff services	579,599	0	0	(579,599)	0	(579,599)
Administration services	1,233,123	0	0	(1,233,123)	0	(1,233,123)
Operation and maintenance of plant services	1,193,347	0	0	(1,193,347)	0	(1,193,347)
Transportation services	518,683	33,109	0	(485,574)	0	(485,574)
	<u>3,900,055</u>	<u>33,109</u>	<u>0</u>	<u>(3,866,946)</u>	<u>0</u>	<u>(3,866,946)</u>
Non-instructional programs	<u>10,133</u>	<u>0</u>	<u>0</u>	<u>(10,133)</u>	<u>0</u>	<u>(10,133)</u>
Other expenditures:						
Facilities acquisition and construction	120,838	0	0	(120,838)	0	(120,838)
Long-term debt interest	174,538	0	0	(174,538)	0	(174,538)
AEA flowthrough	456,669	0	456,669	0	0	0
Depreciation(unallocated) *	389,815	0	0	(389,815)	0	(389,815)
	<u>1,141,860</u>	<u>0</u>	<u>456,669</u>	<u>(685,191)</u>	<u>0</u>	<u>(685,191)</u>
Total governmental activities	<u>13,925,007</u>	<u>1,316,926</u>	<u>1,459,538</u>	<u>(11,148,543)</u>	<u>0</u>	<u>(11,148,543)</u>
Business type activities:						
Support services:						
Operation and maintenance of plant services	67	0	0	0	(67)	(67)
Transportation services	4,806	0	0	0	(4,806)	(4,806)
Non-instructional programs:						
Food service operations	637,217	383,078	314,693	0	60,554	60,554
Total business-type activities	<u>642,090</u>	<u>383,078</u>	<u>314,693</u>	<u>0</u>	<u>55,681</u>	<u>55,681</u>
Total	<u>\$ 14,567,097</u>	<u>1,700,004</u>	<u>1,774,231</u>	<u>(11,148,543)</u>	<u>55,681</u>	<u>(11,092,862)</u>
General Revenues:						
Property tax levied for:						
General purposes				\$ 3,885,820	0	3,885,820
Debt service				647,551	0	647,551
Capital outlay				331,228	0	331,228
Local option sales and services tax				855,210	0	855,210
Unrestricted state grants				5,950,335	0	5,950,335
Unrestricted investment earnings				233,910	5,661	239,571
Gain on sale of equipment				1,163	0	1,163
Other general revenues				107,155	0	107,155
Total general revenues				<u>12,012,372</u>	<u>5,661</u>	<u>12,018,033</u>
Net income before capital contributions				863,829	61,342	925,171
Capital contributions				0	22,013	22,013
Changes in net assets				863,829	83,355	947,184
Net assets beginning of year				13,155,642	192,229	13,347,871
Net assets end of year				<u>\$ 14,019,471</u>	<u>275,584</u>	<u>14,295,055</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:	\$ 2,952,688	1,797,442	808,966	5,559,096
Receivables:				
Property tax:				
Delinquent	63,494	0	21,360	84,854
Succeeding year	3,265,910	0	1,086,878	4,352,788
Income surtax	529,520	0	192,553	722,073
Accounts	8,021	0	1,185	9,206
Due from other governments	594,828	133,764	1,015	729,607
<b>Total Assets</b>	<b>\$ 7,414,461</b>	<b>1,931,206</b>	<b>2,111,957</b>	<b>11,457,624</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 103,616	0	128,035	231,651
Salaries and benefits payable	809,836	0	0	809,836
Deferred revenue:				
Succeeding year property tax	3,265,910	0	1,086,878	4,352,788
Income surtax	529,520	0	192,553	722,073
Total liabilities	4,708,882	0	1,407,466	6,116,348
Fund balances:				
Reserved for:				
Debt service	0	0	149,702	149,702
Talented and gifted	40,815	0	0	40,815
At-risk	24,795	0	0	24,795
Beginning teacher mentoring	830	0	0	830
Salary improvement program	127	0	0	127
Additional teacher contract day	4,295	0	0	4,295
Market factor	7,255	0	0	7,255
Early intervention	3,262	0	0	3,262
Unreserved:				
Designated:				
Special purposes by the board	95,465	0	0	95,465
Cash flow	850,000	0	0	850,000
Undesignated:				
General	1,678,735	0	0	1,678,735
Capital projects	0	1,931,206	0	1,931,206
Management levy	0	0	168,677	168,677
Physical plant and equipment levy	0	0	275,430	275,430
Other special revenue purposes	0	0	110,682	110,682
Total fund balances	2,705,579	1,931,206	704,491	5,341,276
<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,414,461</b>	<b>1,931,206</b>	<b>2,111,957</b>	<b>11,457,624</b>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

<b>Total fund balances of governmental funds (page 15)</b>	\$ 5,341,276
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	11,598,492
Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.	722,073
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(25,853)
Long-term liabilities, including bonds payable and early retirement , are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(3,616,517)
<b>Net assets of governmental activites (page 13)</b>	<u>\$ 14,019,471</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 3,575,764	855,210	1,226,142	5,657,116
Tuition	1,013,833	0	0	1,013,833
Other	309,642	35,175	299,341	644,158
State sources	7,005,474	0	828	7,006,302
Federal sources	403,571	0	0	403,571
Total revenues	12,308,284	890,385	1,526,311	14,724,980
<b>EXPENDITURES:</b>				
Current:				
Instruction				
Regular instruction	5,626,170	0	91,785	5,717,955
Special instruction	2,160,567	0	0	2,160,567
Other instruction	598,675	0	297,350	896,025
	8,385,412	0	389,135	8,774,547
Support services:				
Student services	375,303	0	0	375,303
Instructional staff services	541,631	0	56,285	597,916
Administration services	1,211,657	0	20,666	1,232,323
Operation and maintenance of plant services	1,080,234	0	118,083	1,198,317
Transportation services	494,026	0	27,849	521,875
	3,702,851	0	222,883	3,925,734
Non-instructional programs	0	0	10,133	10,133
Other expenditures:				
Facilities acquisitions	0	0	379,086	379,086
Long-term debt:				
Principal	0	0	565,000	565,000
Interest and fiscal charges	0	0	178,422	178,422
AEA flowthrough	456,669	0	0	456,669
	456,669	0	1,122,508	1,579,177
Total expenditures	12,544,932	0	1,744,659	14,289,591
Excess(deficiency) of revenues over(under) expenditures	(236,648)	890,385	(218,348)	435,389
<b>OTHER FINANCING SOURCES(USES):</b>				
Gain on sale of equipment	1,163	0	0	1,163
Transfers in	0	9,170	161,075	170,245
Transfers out	(1,075)	(150,000)	(19,170)	(170,245)
Total other financing sources(uses)	88	(140,830)	141,905	1,163
Net change in fund balances	(236,560)	749,555	(76,443)	436,552
Fund balances beginning of year	2,942,139	1,181,651	780,934	4,904,724
Fund balances end of year	\$ 2,705,579	1,931,206	704,491	5,341,276

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ 436,552

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense in the current year, are as follows:

Capital outlays	\$ 386,468	
Depreciation expense	<u>(535,781)</u>	(149,313)

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. 62,693

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 565,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 3,884

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds, as follows:

Early retirement	<u>(54,987)</u>
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Changes in net assets of governmental activities (page 14) \$ 863,829

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School Nutrition</u>
<b>Assets</b>	
Cash and cash equivalents:	\$ 202,988
Accounts receivable	166
Inventories	9,741
Capital assets, net of accumulated depreciation(Note 4)	<u>68,372</u>
<b>Total Assets</b>	<u>281,267</u>
<b>Liabilities</b>	
Accounts payable	60
Unearned revenues	<u>5,623</u>
<b>Total Liabilities</b>	<u>5,683</u>
<b>Net Asset</b>	
Invested in capital assets	68,372
Unrestricted	<u>207,212</u>
<b>Total Net Asset</b>	<u>\$ 275,584</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 383,078
TOTAL OPERATING REVENUES	<u>383,078</u>
OPERATING EXPENSES:	
Support services:	
Operation and maintenance	
of plant services:	
Services	67
Transportation services:	
Salaries	4,239
Benefits	567
	<u>4,873</u>
Non-instructional programs:	
Food service operations:	
Salaries	245,787
Benefits	33,653
Services	2,267
Supplies	338,519
Depreciation	16,991
	<u>637,217</u>
TOTAL OPERATING EXPENSES	<u>642,090</u>
OPERATING LOSS	<u>(259,012)</u>
NON-OPERATING REVENUES:	
State sources	8,393
Federal sources	306,300
Interest income	5,661
TOTAL NON-OPERATING REVENUES	<u>320,354</u>
Net income before capital contributions	61,342
Capital contributions	<u>22,013</u>
Change in net assets	83,355
Net assets beginning of year	<u>192,229</u>
Net assets end of year	<u>\$ 275,584</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 379,405
Cash received from miscellaneous sources	3,610
Cash paid to employees for services	(284,246)
Cash paid to suppliers for goods or services	(310,564)
Net cash used in operating activities	<u>(211,795)</u>
Cash flows from non-capital financing activities:	
State grants received	8,393
Federal grants received	<u>278,228</u>
Net cash provided by non-capital financing activities	<u>286,621</u>
Cash flows from investing activities:	
Interest on investments	5,661
Net cash provided by investing activities	<u>5,661</u>
Net increase in cash and cash equivalents	80,487
Cash and cash equivalents at beginning of year	<u>122,501</u>
Cash and cash equivalents at end of year	<u>\$ 202,988</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (259,012)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	28,072
Depreciation	16,991
Decrease in inventories	2,170
Increase in accounts receivable	(166)
Increase in accounts payable	47
Increase in unearned revenue	103
Net cash used in operating activities	<u>\$ (211,795)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 202,988</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$28,072.

During the year ended June 30, 2007, the District received contributed capital of \$22,013 from the Special Revenue - Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	Private Purpose Trust Scholarship	Agency
<b>Assets</b>		
Cash and pooled investments	\$ 128,112	4,092
Accounts receivable	0	7,992
<b>Total Assets</b>	<u>128,112</u>	<u>12,084</u>
<b>Liabilities</b>		
Account payable	0	7,992
Due to other groups	0	4,092
<b>Total Liabilities</b>	<u>0</u>	<u>12,084</u>
<b>NET ASSETS</b>		
Reserved for scholarships	<u>\$ 128,112</u>	<u>0</u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

	<u>Private Purpose</u>
	<u>Trust</u>
	<u>Scholarship</u>
Additions:	<u>\$ 3,302</u>
Deductions:	<u>0</u>
Change in net assets	3,302
Net assets beginning of year	<u>124,810</u>
Net assets end of year	<u><u>\$ 128,112</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

ATLANTIC COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The Atlantic Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the city of Atlantic, Iowa, and the predominate agricultural territory in Cass, Audubon and Pottawattamie Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Atlantic Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Atlantic Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Cass County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following proprietary fund:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, and claims and judgments, are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-12 years

Salaries and Benefits Payable - Payroll and related expenditures for extra duties and curriculum work for the current school year, which is paid in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenues - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary, School Nutrition Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment

companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments as of June 30, 2007.

**(3) Interfund Transfers**

The detail of interfund transfers for year end June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
Capital Projects	Special Revenue: Physical Plant and Equipment Levy	\$ 9,170
Debt Service	Capital Projects	150,000
Special Revenue: Student Activity	General	1,075
Special Revenue: Student Activity	Special Revenue: Expendable Trust	10,000
		<u>\$ 170,245</u>

The Physical Plant and Equipment Levy Fund paid Capital Projects \$9,170 for playground donations. The Capital Projects transferred \$150,000 to Debt Service for debt relief. The expendable trust transferred \$10,000 to the Student Activity Fund to cover the purchase of new uniforms.

**(4) Capital Assets**

Capital assets activity for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business type activities:				
Machinery and equipment	\$ 201,296	22,013	0	223,309
Less accumulated depreciation	137,946	16,991	0	154,937
Business type activities capital assets, net	<u>\$ 63,350</u>	<u>5,022</u>	<u>0</u>	<u>68,372</u>

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 928,419	0	0	928,419
Construction in progress	0	76,883	0	76,883
Total capital assets not being depreciated	928,419	76,883	0	1,005,302
Capital assets being depreciated:				
Buildings	14,551,562	97,000	0	14,648,562
Land improvements	1,353,293	31,876	0	1,385,169
Machinery and equipment	1,871,262	180,709	0	2,051,971
Total capital assets being depreciated	17,776,117	309,585	0	18,085,702
Less accumulated depreciation for:				
Buildings	4,833,621	323,057	0	5,156,678
Land improvements	620,618	66,758	0	687,376
Machinery and equipment	1,502,492	145,966	0	1,648,458
Total accumulated depreciation	6,956,731	535,781	0	7,492,512
Total capital assets being depreciated, net	10,819,386	(226,196)	0	10,593,190
Governmental activities capital assets, net	\$ 11,747,805	(149,313)	0	11,598,492

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 37,027
Special	3,865
Other	17,044
Support services:	
Administration	800
Operation and maintenance of plant	17,662
Transportation	69,568
	145,966
Unallocated depreciation	389,815
Total governmental activities depreciation expense	\$ 535,781
Business type activities:	
Food services	\$ 16,991
Total business type activities depreciation expense	\$ 16,991

(5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 4,105,000	0	565,000	3,540,000	595,000
Early retirement	21,530	76,517	21,530	76,517	76,517
Total	\$ 4,126,530	76,517	586,530	3,616,517	671,517

Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of June 1, 2001		
		Principal	Interest	Total
2008	4.125 %	\$ 595,000	155,116	750,116
2009	4.250	615,000	130,572	745,572
2010	4.350	640,000	104,436	744,436
2011	4.450	660,000	76,596	736,596
2012	4.550	670,000	47,226	717,226
2013	4.650	360,000	16,740	376,740
Total		\$ 3,540,000	530,686	4,070,686

Early Retirement

The District has in place a retirement incentive plan, that provides either a lump sum or two equal payments in the amount that shall equal the lessor of \$10,000 or the difference between the employee's 2006-07 salary and the 2006-07 salary schedule excluding payments not included in the salary schedule. A employee is deemed eligible if they have completed at least fifteen years of full-time contracted service and will have attained at least fifty-seven years of age on or before August 15, 2006. Written resignation and an application for participation must be obtained by the Board of Education by February 28, 2006 for qualification into the program. A liability has been recorded in the Government-wide financial statements representing the District's commitment to fund non-current early retirement.

(6) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$448,523, \$446,147 and \$413,958 respectively, equal to the required contributions for each year.

**(7) Risk Management**

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: dental.

Each member's contributions to ISEBA funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a GAAP basis, ISEBA's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2007 were \$37,531.

Payments from participating members are the sole source for paying claims and establishing reserves for the ISEBA self-funded programs. Stop loss insurance is purchased by ISEBA to protect against large claims but the potential exists for claims to exceed the premium payments made by members into the program. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

The District does not report a liability for losses in excess of stop loss insurance unless it is deemed probable that such losses have occurred and the amount of such a loss can be reasonably estimated. Accordingly, at June 30, 2007, no liability has been recorded in the District's financial statements. As of June 30, 2007, settled claims have not exceeded the risk pool or reinsurance company coverage.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw. ISEBA will pay claims incurred before the termination date.

Atlantic Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$456,669 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(9) Construction Commitment**

The District has entered into various contracts totaling \$83,569 the Schuller Elementary roof project. As of June 30, 2007, costs of \$76,883 had been incurred against the contracts. The balance of \$6,686 remaining at June 30, 2007 will be paid as work on the projects progresses.

REQUIRED SUPPLEMENTARY INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary	Total	Budgeted Amounts		Final to
	Funds	Fund				Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 7,315,107	388,739	7,703,846	7,200,345	7,200,345	503,501
State sources	7,006,302	8,393	7,014,695	6,915,441	6,915,441	99,254
Federal sources	403,571	306,300	709,871	688,757	688,757	21,114
Total revenues	14,724,980	703,432	15,428,412	14,804,543	14,804,543	623,869
Expenditures:						
Instruction	8,774,547	0	8,774,547	9,162,032	9,162,032	387,485
Support services	3,925,734	4,873	3,930,607	3,957,500	3,957,500	26,893
Non-instructional programs	10,133	637,217	647,350	1,015,000	1,015,000	367,650
Other expenditures	1,579,177	0	1,579,177	2,274,690	2,274,690	695,513
Total expenditures	14,289,591	642,090	14,931,681	16,409,222	16,409,222	1,477,541
Excess(deficiency) of revenues over(under) expenditures	435,389	61,342	496,731	(1,604,679)	(1,604,679)	2,101,410
Other financing sources, net	1,163	22,013	23,176	0	0	23,176
Excess(deficiency) of revenues and other financing sources over(under) expenditures	436,552	83,355	519,907	(1,604,679)	(1,604,679)	2,124,586
Balance beginning of year	4,904,724	192,229	5,096,953	4,596,486	4,596,486	500,467
Balance end of year	\$ 5,341,276	275,584	5,616,860	2,991,807	2,991,807	2,625,053

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

OTHER SUPPLEMENTARY INFORMATION

ATLANTIC COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue Funds						Total
	Physical			Expend-	Total		Other
	Plant and	Equipment	Student	able	Special	Debt	Nonmajor
	Management	Levy	Activity	Trust	Revenue	Service	Funds
<b>Assets</b>							
Cash and pooled investments	\$ 163,451	394,320	90,717	24,004	672,492	136,474	808,966
Receivables:							
Property tax:							
Current year delinquent	5,215	2,945	0	0	8,160	13,200	21,360
Succeeding year	250,000	161,462	0	0	411,462	675,416	1,086,878
Income surtax	0	192,553	0	0	192,553	0	192,553
Accounts	0	0	1,185	0	1,185	0	1,185
Due from other governments	11	6	970	0	987	28	1,015
<b>Total Assets</b>	<b>\$ 418,677</b>	<b>751,286</b>	<b>92,872</b>	<b>24,004</b>	<b>1,286,839</b>	<b>825,118</b>	<b>2,111,957</b>
<b>Liabilities and Fund Balances</b>							
Liabilities:							
Accounts payable	\$ 0	121,841	6,194	0	128,035	0	128,035
Deferred revenue:							
Succeeding year property tax	250,000	161,462	0	0	411,462	675,416	1,086,878
Income surtax	0	192,553	0	0	192,553	0	192,553
Total liabilities	250,000	475,856	6,194	0	732,050	675,416	1,407,466
Fund balances:							
Reserved for:							
Debt service	0	0	0	0	0	149,702	149,702
Unreserved	168,677	275,430	86,678	24,004	554,789	0	554,789
Total fund balances	168,677	275,430	86,678	24,004	554,789	149,702	704,491
<b>Total Liabilities and Fund Balances</b>	<b>\$ 418,677</b>	<b>751,286</b>	<b>92,872</b>	<b>24,004</b>	<b>1,286,839</b>	<b>825,118</b>	<b>2,111,957</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	Special Revenue Funds						Total
	Physical Plant and Management Levy	Equipment	Student Activity	Expend- able Trust	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:							
Local sources:							
Local tax	\$ 251,522	327,069	0	0	578,591	647,551	1,226,142
Other	17,357	27,181	238,969	4,661	288,168	11,173	299,341
State sources	201	114	0	0	315	513	828
TOTAL REVENUES	269,080	354,364	238,969	4,661	867,074	659,237	1,526,311
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	51,727	37,808	0	2,250	91,785	0	91,785
Other instruction	0	0	297,350	0	297,350	0	297,350
Support services:							
Instructional staff support	0	56,285	0	0	56,285	0	56,285
Administration services	20,666	0	0	0	20,666	0	20,666
Operation and maintenance of plant services	78,318	39,765	0	0	118,083	0	118,083
Student transportation	27,849	0	0	0	27,849	0	27,849
Non-instructional programs:							
Food service operations	10,133	0	0	0	10,133	0	10,133
Other expenditures:							
Facilities acquisition	0	379,086	0	0	379,086	0	379,086
Long-term debt:							
Principal	0	0	0	0	0	565,000	565,000
Interest and fiscal charges	0	0	0	0	0	178,422	178,422
TOTAL EXPENDITURES	188,693	512,944	297,350	2,250	1,001,237	743,422	1,744,659
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	80,387	(158,580)	(58,381)	2,411	(134,163)	(84,185)	(218,348)
OTHER FINANCING SOURCES(USES):							
Operating transfers in	0	0	11,075	0	11,075	150,000	161,075
Operating transfers out	0	(9,170)	0	(10,000)	(19,170)	0	(19,170)
Total other financing sources(uses)	0	(9,170)	11,075	(10,000)	(8,095)	150,000	141,905
Net change in fund balances	80,387	(167,750)	(47,306)	(7,589)	(142,258)	65,815	(76,443)
FUND BALANCES BEGINNING OF YEAR	88,290	443,180	133,984	31,593	697,047	83,887	780,934
FUND BALANCES END OF YEAR	\$ 168,677	275,430	86,678	24,004	554,789	149,702	704,491

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Drama	\$ 963	620	1,451	132
Debate	0	1,919	1,919	0
Vocal Music	9,310	10,289	10,852	8,747
Show Choir Costume	3,221	2,645	0	5,866
High School Band	886	23,612	23,612	886
Middle School Band	0	4,526	1,939	2,587
Musical	289	3,026	1,507	1,808
Cross Country	0	1,798	1,798	0
Boys Basketball	23,809	10,576	22,328	12,057
Football	27,471	25,537	37,081	15,927
Soccer	0	2,700	2,700	0
Baseball	(487)	5,373	5,373	(487)
Boys Track	594	4,139	6,759	(2,026)
Boys Tennis	(38)	1,709	1,709	(38)
Boys Golf	0	1,845	1,845	0
Wrestling	9,798	6,376	13,207	2,967
Girls Basketball	23,037	8,801	24,311	7,527
Volleyball	7,954	4,874	12,724	104
Soccer	0	3,441	3,382	59
Softball	(797)	9,674	9,674	(797)
Girls Track	670	5,610	5,804	476
Girls Tennis	(52)	1,904	1,388	464
Girls Golf	0	1,592	1,592	0
National Honor Society	427	998	885	540
Student Council	594	13,200	10,465	3,329
FFA	(820)	39,870	36,329	2,721
Middle School Student Council	0	2,597	2,597	0
Prime Time	3,719	2,065	1,820	3,964
MS Activities	722	457	947	232
Javelin	11,270	8,551	8,043	11,778
French Club	267	0	0	267
Spanish Club	111	0	0	111
Cheerleaders	0	3,434	3,434	0
Pride	4,834	2,030	5,839	1,025
Globe Account	62	0	62	0
Schuler Student Council	203	0	0	203
Jr Class Prom	3,257	6,845	6,453	3,649
Coke	0	238	238	0
General Activity	(84)	16,944	16,943	(83)
Student Connection	957	228	843	342
Operation Special Kids	377	0	107	270
Hosp BD Activity	1,140	2,945	2,495	1,590
Schuler Resource Activity	320	0	0	320
Insuff. Funds	0	1,406	1,406	0
Level II SPED	0	224	63	161
Interest	0	5,426	5,426	0
Total	\$ 133,984	250,044	297,350	86,678

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
<b>Assets</b>				
Cash and pooled investments	\$ 6,352	27,384	29,644	4,092
Accounts receivable	0	7,992	0	7,992
	<u>\$ 6,352</u>	<u>35,376</u>	<u>29,644</u>	<u>12,084</u>
<b>Liabilities</b>				
Accounts payable	\$ 0	7,992	0	7,992
Due to other groups	6,352	27,384	29,644	4,092
	<u>\$ 6,352</u>	<u>35,376</u>	<u>29,644</u>	<u>12,084</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 5,657,116	5,519,381	4,636,402	4,252,623
Tuition	1,013,833	905,598	804,293	742,794
Other	644,158	858,431	499,693	457,789
Intermediate sources	0	0	0	7,121
State sources	7,006,302	6,380,868	6,015,939	5,956,968
Federal sources	403,571	438,369	516,049	378,137
Total	<u>\$ 14,724,980</u>	<u>14,102,647</u>	<u>12,472,376</u>	<u>11,795,432</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 5,717,955	5,410,666	5,000,500	4,936,636
Special instruction	2,160,567	1,921,407	1,502,442	1,615,769
Other instruction	896,025	831,840	1,123,659	703,959
Support services:				
Student services	375,303	387,154	306,622	340,420
Instructional staff services	597,916	578,921	455,264	326,908
Administration services	1,232,323	1,100,090	1,011,689	972,797
Operation and maintenance of plant services	1,198,317	1,193,207	1,056,285	976,804
Transportation services	521,875	512,138	431,331	361,088
Central support services	0	0	4,745	2,663
Non-instructional programs	10,133	8,681	20,778	17,284
Other expenditures:				
Facilities acquisitions	379,086	612,430	194,372	133,377
Long-term debt:				
Principal	565,000	545,000	525,000	510,000
Interest and other charges	178,422	200,904	222,560	243,597
AEA flow-through	456,669	410,189	406,718	415,603
Total	<u>\$ 14,289,591</u>	<u>13,712,627</u>	<u>12,261,965</u>	<u>11,556,905</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2007

GRANTOR/PROGRAM	CFDA NUMBER	GRANT NUMBER	PROGRAM EXPENDITURES
INDIRECT:			
DEPARTMENT OF AGRICULTURE:			
IOWA DEPARTMENT OF EDUCATION:			
FOOD DONATION (non-cash)	10.550	FY 07	\$ 28,072
SCHOOL NUTRITION CLUSTER PROGRAMS:			
SCHOOL BREAKFAST PROGRAM	10.553	FY 07	44,027
NATIONAL SCHOOL LUNCH PROGRAM	10.555	FY 07	234,201
			<u>278,228</u>
DEPARTMENT OF EDUCATION:			
IOWA DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	0387-G	<u>215,318</u>
SAFE AND DRUG FREE SCHOOLS AND COMMUNITIES - STATE GRANTS	84.186	FY 07	<u>7,174</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	FY 07	<u>2,713</u>
SPECIAL EDUCATION TECHNICAL ASSISTANCE	84.326	FY 07	<u>100</u>
IMPROVING TEACHER QUALITY STATE GRANTS	84.367	FY 07	<u>66,996</u>
GRANTS FOR STATE ASSESSMENT AND RELATED ACTIVITIES (TITLE VI A)	84.369	FY 07	<u>5,436</u>
IOWA WESTERN COMMUNITY COLLEGE			
IOWA DEPARTMENT OF EDUCATION:			
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	FY 07	<u>14,240</u>
AREA EDUCATION AGENCY:			
IOWA DEPARTMENT OF EDUCATION:			
SPECIAL EDUCATION - GRANTS TO STATES (PART B)	84.027	FY 07	<u>80,837</u>
TOTAL			<u>\$ 699,114</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Atlantic Community School District and is presented in conformity with the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

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Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Atlantic Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Atlantic Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 20, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Atlantic Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Atlantic Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Atlantic Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Atlantic Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Atlantic Community School District's financial statements that is more than inconsequential will not be prevented or detected by Atlantic Community School District's internal control. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Atlantic Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

#### Compliance and Other Matters

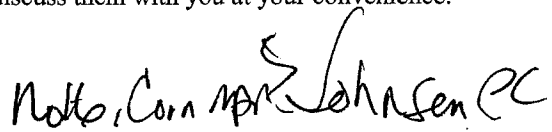
As part of obtaining reasonable assurance about whether Atlantic Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Atlantic Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the District's responses, we did not audit Atlantic Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Atlantic Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and on Internal Control over Compliance  
in Accordance with OMB Circular A-133

To the Board of Education of  
Atlantic Community School District:

Compliance

We have audited the compliance of Atlantic Community School District with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. Atlantic Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Atlantic Community School District's management. Our responsibility is to express an opinion on Atlantic Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Atlantic Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Atlantic Community School District's compliance with those requirements.

In our opinion, Atlantic Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of Atlantic Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered Atlantic Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Atlantic Community School District's internal control over compliance.

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A control deficiency in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a federal program such that there is more than a remote likelihood noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the District's internal control that might be significant deficiencies or material weaknesses as defined below. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Atlantic Community School District and other parties to whom Atlantic Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 20, 2008

ATLANTIC COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - Individual
    - CFDA Number 84.010 - Title I grants to Local Educational agencies
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Atlantic Community School District did qualify as a low-risk auditee.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part II: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

II-A-07 Sponsor Procedures - We noted during our audit that sponsors are not turning in collected receipts to the administration office for deposit in a timely manner. The breakdown of control procedures for the receipting process becomes apparent as the sponsor maintains the collected revenue. The holding of the undeposited funds by the sponsors provides a risk of loss due to possible theft, improper use or loss, as well as lack of reporting of the funds. The District is required to maintain records for the student activity fund.

Recommendation - The possible impropriety of revenues and expenditures is undeterminable without records to document the transactions of posting of receipts and expenditures. The district should take necessary steps to require all individuals to turn in collected money.

Response - The District will conduct a thorough investigation of current internal controls and procedures and make appropriate changes as necessary.

Conclusion - Response accepted.

II-B-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In compliance with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches, and determine that the wage paid is in compliance with minimum wage requirements as well as any overtime issues.

Response - Beginning fall of 2007, the District implemented recordkeeping of non-certified staff coaching staff.

Conclusion - Response accepted.

II-C-07 PPEL Expenditures - We noted that the District is currently making purchases from Special Revenue, Physical Plant and Equipment Levy(PPEL) Fund which do not appear to be in compliance with Chapter 298.3 of the Code of Iowa. The District purchased a software package which is not allowable from the PPEL Fund.

Recommendation - The District should review Chapter 298.3 of the Code of Iowa to ensure that purchases made from this fund are compliant. The District should make a corrective transfer from the General Fund to the PPEL Fund in the amount of \$1,645 to cover this expense.

Response - This expenditure was incorrectly coded from the PPEL account.

Conclusion - Response acknowledged. The District's controls for identifying where purchases will be made should be reviewed. In addition, the District may want to

consider additional training with regard to allowable expenditures for each fund. The Department of Education has a Uniform Administrative Procedures Manual which provides guidance.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

No matters were reported.

ATLANTIC COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007

Part IV: Other Findings Related to Required Statutory Reporting

IV-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed the amount budgeted.

IV-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

IV-D-07 Business Transactions - Business transactions between the District and District officials or employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Barb Olson, Teacher Spouse owns Olson Fuel Supply, Inc.	Fuel (per bid)	\$76,572
Kathy Henningsen, Teacher Spouse owns Henningsen Construction	Purchased Services	\$20,114
Lori Cook, Aide Spouse owns Cook Landscaping	Purchased Services	\$2,205

In accordance with the Attorney General's opinion dated November 9, 1976, the above transactions with the teacher, aide and secretary spouses do not appear to represent a conflict of interest.

IV-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

IV-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

IV-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

IV-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

IV-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

IV-J-07 Financial Condition - The District had a negative individual account balances within the Special Revenue Student Activity Fund.

Recommendation - The District should continue to monitor this fund and investigate alternatives to eliminate the deficit.

Response - This will be part of the internal control review along with setting and monitoring budget limits in the activity fund.

Conclusion - Response accepted.